



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to Pike County Fiscal Court Grant Number KY-20363

Report Prepared by Castro & Co, LLC

Report Number 23-13

April 17, 2023

Appalachian Regional Commission
Office of Inspector General
1666 Connecticut Avenue, Suite 718
Washington, D.C. 20009



Office of Inspector General

Appalachian Regional Commission

April 17, 2023

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General

SUBJECT: Audit Report 23-13 – Pike County Fiscal Court

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number KY-20363 per its agreement with the Appalachian Regional Commission. The objective of the audit was to determine if costs claimed were allowable, allocable, reasonable, and in conformity with the Commission's award terms and conditions and Federal financial assistance requirements. In addition, the audit determined whether the performance measures were reasonable, supported, and fairly represented to the Commission.

Castro & Company, LLC, is responsible for the attached audit report and the conclusions expressed in this report. We do not express any opinion on the conclusions presented in the audit report. To fulfill our responsibilities, we:

- Reviewed the approach to and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings, as necessary;
- Reviewed the draft and final audit reports; and
- Coordinated the issuance of the audit report.

The auditors made one recommendation in the report. Within the next 30 days, please provide me with your management decisions describing the specific actions that you will take to implement the recommendation.

We thank your staff for the assistance that was extended to the auditors during this audit. Please contact me at 202-884-7675 if you have any questions regarding the report.



**Appalachian Regional Commission
Performance Audit Report
of Grant No. KY-20363**

**For the period from May 1, 2021 through January 31, 2022
Awarded to Pike County Fiscal Court**

**Prepared for the Appalachian Regional Commission
Office of Inspector General**

April 17, 2023

Final Report

Table of Contents

Executive Summary 1
Background..... 2
Objectives, Scope, and Methodology 2
Summary of Results..... 4
Appendix A – Statement of Condition and Recommendations 5
Attachment 1 – Pike County Fiscal Court’s Response 6

Executive Summary

Appalachian Regional Commission
Office of Inspector General
1666 Connecticut Avenue, NW; Suite 700
Washington, DC 20009

Castro & Company, LLC (Castro & Co) conducted a performance audit of Grant Number KY-20363 awarded by the Appalachian Regional Commission (ARC) to Pike County Fiscal Court (the Grantee) for the period from May 1, 2021 through January 31, 2022. The audit was conducted at the request of the ARC Office of Inspector General to assist it in its oversight of ARC grant funds.

The objectives of the performance audit were to determine whether: (1) grant funds were managed in accordance with the ARC and Federal grant requirements; (2) grant funds were expended, as provided for in the approved grant budget; (3) internal guidelines, including program (internal) controls were adequate; (4) accounting and reporting requirements were implemented in accordance with accounting principles generally accepted in the United States of America (or other applicable accounting and reporting requirements); and (5) matching requirements were met.

We determined that except for Finding 01 related to reporting requirements as described in **Appendix A – Findings and Recommendations**; the Grantee’s financial management, administrative procedures, and related internal guidelines were adequate to manage the ARC grant funds.

We discussed the results of this performance audit with Pike County Fiscal Court’s management at the conclusion of our fieldwork. The Grantee’s response has been included as **Attachment 1 – Pike County Fiscal Court’s Response** to this report.

Castro & Co appreciates the cooperation and assistance received from the Grantee and ARC staff during this performance audit.

Castro & Company, LLC

Alexandria, VA
April 17, 2023

Background

The Appalachian Regional Commission (ARC) is a regional economic development agency, representing a unique partnership of Federal, state, and local governments. ARC-funded programs are used to support education and job training; health care; water and sewer systems; housing; highway construction; and other essentials of comprehensive economic development. ARC grants are made to a wide range of entities including local development districts, state ARC offices, state and local governments, educational establishments, nonprofit organizations, and for a variety of economic development projects. Castro & Company, LLC (Castro & Co) was contracted by the ARC's Office of Inspector General to perform the audit of Grant No. KY-20363 awarded to Pike County Fiscal Court (the Grantee) for the period from May 1, 2021 through January 31, 2022.

ARC awarded Grant No. KY-20363 to Pike County Fiscal Court to provide the 5% match funding as part of the Project Partnership Agreement (PPA) between the Department of the Army and Pike County Fiscal Court for the design phase of the Coal Run Village Flood Wall and levy that will surround the Coal Run Village area of Pike County and identify approximately 10 residences in the project area that will be acquired in a future phase of the project. The nearly \$10.1 million design phase is part of a large (approximately \$1.3 billion) flood protection project in the floodplain of the Levisa Fork and its tributaries within Pike County. Pike County Fiscal Court is collaborating with the U.S. Army Corps of Engineers (USACE), Coal Run Village, and state partners in addition to ARC in the development of the proposed project.

The original period of performance for Grant No. KY-20363 covered the period from May 1, 2021 through June 30, 2022 but was subsequently extended through August 31, 2023. The grant agreement provided a budget of \$442,105 in ARC funds and required non-ARC matching funds of \$656,980 for total project costs of \$1,099,085. The allowable percentage breakout of ARC to non-ARC funding for the project was 40% ARC funds to 60% matching funds.

We obtained the ARC Form SF-270 Request for Advance or Reimbursement for the period covering August 16, 2021 to January 31, 2022 that identified total ARC costs of \$384,326 (40%) and non-ARC matching costs of \$579,308 (60%) for a total project cost of \$963,634.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC Office of Inspector General to conduct a performance audit of Pike County Fiscal Court to determine compliance with the requirements of the ARC Grant No. KY-20363 for the period from May 1, 2021 through January 31, 2022.

The budgeted amounts for the grant are presented in Exhibit A below:

Exhibit A: Schedule of Grant Budget			
Category	Federal Amount	Non-Federal Amount	Total
Contractual	\$ 442,105	\$ 656,980	\$ 1,099,085
Total	\$ 442,105	\$ 656,980	\$ 1,099,085

The objectives of our audit were to determine whether the Grantee used grant funding from the ARC in accordance with its ARC grant agreement and complied with financial management requirements, specifically to determine whether:

- Program funds were managed in accordance with the ARC and Federal grant requirements;
- Grant funds were expended as provided for in the approved grant budget;
- Internal grant guidelines including program (internal) controls were adequate;
- Accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and
- Matching requirements were met.

The scope of this audit includes those costs addressed in Pike County Fiscal Court's system that specifically apply to ARC, such as, contractual costs used solely to meet the 5% match requirements of the PPA between the Department of the Army and Pike County Fiscal Court. We conducted this performance audit from September 2022 to April 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives we were able to evaluate.

The audit was conducted using the applicable requirements contained in Title 2 U. S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, *Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the ARC Code, and the Grant Agreement.

To meet the audit objectives, our overall methodology included the following:

- Obtaining an understanding of the Grantee's internal controls and documenting key controls over personnel and procurement through reviews of policies and procedures, prior audit reports, organization charts, inquiry of the Grantee's management and other available documentation, assessing control risk, and determining the documentation available for review;
- Considering fraud risk through a team fraud brainstorming session and inquiries of the Grantee's management about their understanding of the risks of fraud related to grant awards, programs and controls the Grantee has established to mitigate specific fraud risks, and whether management is aware of any allegations of fraud or suspected fraud;
- Reviewing the PPA between the Department of the Army and Pike County Fiscal Court, funding request letters from USACE under the Department of the Army, payment transfers/checks, and ARC Form SF-270 Request for Advance or Reimbursement to determine if ARC grant funds were expended during the grant period and utilized in accordance with the terms of the ARC grant agreement and approved grant budget.

Grantee's Response to Audit Results

Our audit results were discussed with Eric Ratliff, Executive Director of Big Sandy Area Development District, and Frankie Stacy, Pike County Fiscal Court Treasurer, for Pike County Fiscal Court during the exit conference on April 10, 2023. Pike County Fiscal Court concurred with our results. Pike County Fiscal Court's reactions have been incorporated into the report and a copy of the Grantee's response, in its entirety, can be found in **Attachment 1 – Pike County Fiscal Court's Response** of this report.

Summary of Results

Castro & Co's procedures determined Pike County Fiscal Court managed the grant funds in accordance with the ARC and Federal grant requirements. Grant funds were expended, as provided for in the approved grant budget.

Pike County Fiscal Court's financial management, administrative procedures, and internal controls were adequate to account for the funds provided under the ARC grant. Accounting and reporting requirements were implemented in accordance with accounting principles generally accepted in the United States of America (or other applicable accounting and reporting requirements), including ARC requirements, except for the matters described in Finding 01.

The Grantee had a total of \$384,326 in ARC costs and \$579,308 in non-ARC matching costs; therefore, we determined the Grantee met the match requirements as of January 31, 2022.

The Exhibit B below presents costs claimed by the Pike County Fiscal Court and costs recommended as a result of the grant audit.

Exhibit B: Schedule of Claimed and Audit Recommended Costs							
	Claimed		Questioned Cost		Audit Recommended		
Category	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Contractual	\$ 384,326	\$ 579,308	\$ -	\$ -	\$ 384,326	\$ 579,308	\$ 963,634
Total	\$ 384,326	\$ 579,308	\$ -	\$ -	\$ 384,326	\$ 579,308	\$ 963,634

Appendix A – Statement of Condition and Recommendations

Finding 01 – Untimely Quarterly Progress Reporting

Condition:

As part of our procedures, we reviewed interim performance progress reports (PPR) submitted by Pike County Fiscal Court (the Grantee) during the grant period from May 1, 2021 to January 31, 2022. Based on our review, we noted the following:

- In three (3) instances, the Grantee did not submit PPRs for the reporting periods of February 1, 2022 to May 31, 2022, June 1, 2022 to September 30, 2022, and October 1, 2022 to January 31, 2023 as required by ARC.

Criteria:

The ARC *Grant Administration Manual for ARC Non-Construction Grants*, dated February 2020, states,

Reports

Reporting Intervals

The reporting period begins with the start date of the grant agreement. ARC requires interim progress reports every 120 days or every four months and a final report at the end of your project's period of performance. Reports are due no later than 30 days after the close of a reporting period.

Cause:

The Pike County Fiscal Court relies on the Department of the Army to provide updates on the project status and submits PPRs when communication from the Department of the Army is received. The Grantee also did not have policies and procedures in place to obtain project updates from the Department of the Army in a timely manner and ensure quarterly PPRs were submitted to ARC within 30 days from the close of the reporting period.

Effect:

Without policies and procedures to ensure timely quarterly progress reporting, inaccurate financial and performance information may be reported to ARC.

Recommendation:

We recommend the Grantee develop and implement policies and procedures to ensure PPRs are submitted to ARC no later than 30 days after the close of a reporting period.

Grantee's Response:

Pike County Fiscal Court takes no exception to and agrees with Castro & Company, LLC's findings presented in the audit report of Grant Number KY-20363 for the period from May 1, 2021 through January 31, 2022.

Auditor's Response:

Pike County Fiscal Court concurred with the finding; therefore, no further comment is necessary.

Attachment 1 – Pike County Fiscal Court’s Response



Office of Pike County Judge/Executive

RAY S. JONES, II

PIKE COUNTY COURTHOUSE
146 MAIN STREET
PIKEVILLE, KENTUCKY 41501
OFFICE: (606) 432-6247
FAX: (606) 432-6242

April 11, 2023

Castro & Company, LLC
1635 King Street
Alexandria, VA 22314
(703) 229-4440

Subject: Pike County Fiscal Court Response to Castro & Company, LLC’s Performance Audit of Grant Number KY-20363

Pike County Fiscal Court Response takes no exception to and agrees with Castro & Company, LLC’s findings presented in the audit report of Grant Number KY-20363 for the period from May 1, 2021 through January 31, 2022.

Sincerely,

Ray S. Jones, II
Pike County Judge/Executive